CONGRESSIONAL BUDGET OFFICE
COST ESTIMATE

March 22, 2004

H.R. 3971
Highway Reauthorization Tax Act of 2004

As ordered reported by the House Committee on Ways and Means on March 17, 2004

SUMMARY

H.R. 3971 would amend several provisions of tax law relating to alcohol fuels. The bill would replace the reduced tax rate on alcohol fuels with an excise credit and make several changes intended to reduce evasion of fuel taxes. The tax provisions of the bill would generally take effect on October 1, 2004.

The Congressional Budget Office (CBO) and the Joint Committee on Taxation (JCT) estimate that enacting the bill would increase governmental receipts by $108 million in 2004, about $4.8 billion over the 2004-2009 period, and about $15.1 billion over the 2004-2014 period. (About $5.9 billion of the 10-year increase occurs because the new excise credit is assumed to expire in 2010, whereas the existing reduction in the excise tax rate is assumed to remain in effect beyond 2010, as specified in law.) CBO estimates that the bill would increase direct spending by $105 million in 2005, $571 million over the 2004-2009 period, and $901 million over the 2004-2014 period.

JCT has determined that HR. 3971 contains three private-sector mandates, as defined in the Unfunded Mandates Reform Act (UMRA). The cost of complying with those mandates would exceed the annual threshold for private-sector mandates established by UMRA ($120 million in 2004, adjusted annually for inflation) beginning in 2005.

JCT has determined that the tax provisions contain no intergovernmental mandates, as defined by UMRA, and would not affect the budgets of state, local, or tribal governments.

ESTIMATED COST TO THE FEDERAL GOVERNMENT

The estimated budgetary impact of H.R. 3971 is shown in the following table. The spending impact of the legislation falls within budget function 350 (agriculture).

	By Fiscal Year, in Millions of Dollars										
	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
CHANGES IN REVENUES											
Replacing Reduced Tax Rate on Alcohol Fuels with Excise Credit											
—Impact of Expiring Excise Credit	0	0	0	0	0	0	0	1,131[a]	1,559[a]	1,586[a]	1,614[a]
—Increased Compliance	0	22	23	23	23	22	22	22	21	21	21
—Impact of Making Direct Payments to Some Recipients	0	105	114	116	117	119	121	38[a]	0[a]	0[a]	0[a]
Taxing Aviation-Grade Kerosene	0	395	423	426	427	427	425	421	417	413	412
Other Provisions Intended to Reduce Fuel Tax Evasion	108	341	397	400	402	405	405	407	408	409	410
Estimated Revenues	108	863	957	965	969	973	973	2,019	2,405	2,429	2,457
CHANGES IN DIRECT SPENDING[b]											
Replacing Reduced Tax Rate on Alcohol Fuels with Excise Credit											
—Impact of Making Direct Payments to Some Recipients	0	105	114	116	117	119	121	38[a]	0[a]	0[a]	0[a]
—Impact of Expiring Excise Credit on Farm Programs	0	0	0	0	0	0	0	19[a]	32[a]	54[a]	66[a]
Total Changes in Direct Spending	0	105	114	116	117	119	121	57	32	54	66

SOURCES: CBO and the Joint Committee on Taxation.

NOTE: Positive (negative) changes in revenues correspond to decreases (increases) in budget deficits. Positive (negative) changes in direct spending correspond to increases (decreases) in budget deficits.

a. These effects result from application of the budget law for constructing CBO's baseline in the case of expiring excise taxes dedicated to trust funds. Under current law, the taxes on motor fuels dedicated to the Highway Trust Fund (HTF) expire in 2005, and are assumed to be permanently extended in CBO's baseline under budget law. The lower excise tax rates on alcohol fuels, which reduce revenue to the HTF, expire in 2007 and are also assumed to be permanently extended in CBO's baseline. H.R. 3971 would replace the lower excise tax rates on alcohol fuels with an excise tax credit that would not reduce revenue to the HTF and that would expire in 2010. If this bill is enacted, CBO's subsequent baseline would not assume extension of the excise tax credit beyond its expiration because the requirement to assume extension only applies to excise taxes dedicated to trust funds. For purposes of this cost estimate, therefore, CBO and JCT assume that the credit would expire as scheduled. That treatment generates changes in revenues and outlays beyond 2010.

b. The estimated changes in budget authority equal the estimated changes in outlays for each provision.

BASIS OF ESTIMATE

Revenues

JCT provided all the revenue estimates. One provision would repeal the existing exemptions from the gasoline tax rate for alcohol fuels and replace those exemptions with an excise tax credit worth the same amount. JCT estimates the increased compliance from doing so would increase federal revenues by $22 million in 2005, $113 million over the 2005-2009 period, and $220 million over the 2005-2014 period. This estimate assumes the excise tax credit for alcohol fuels would be extended beyond the provision's 2010 expiration.

Budget law (the Balanced Budget and Emergency Deficit Control Act of 1985) requires CBO to treat excise taxes dedicated to trust funds as permanent, even if they expire during the projection period. CBO's baseline includes permanent extension of the reduced rates of taxation on alcohol fuels beyond their expiration because they reduce amounts credited to the Highway Trust Fund (HTF). However, the excise tax credit for alcohol fuels, as provided for in the bill, would not reduce amounts credited to the HTF. Therefore, CBO and JCT do not assume the credit would be extended and estimate that repealing the existing exemptions from the gasoline tax rate for alcohol fuels would increase governmental receipts by an additional $5.9 billion between 2011 and 2014, after the new tax credit would expire.

H.R. 3971 also would provide direct payments to recipients of the excise tax credits for both alcohol fuel mixtures who would have insufficient tax liability to use them otherwise. Under current law, the equivalent lower rates of taxation reduce revenues. As a result, JCT estimates that the provision would increase outlays and correspondingly raise revenues by an estimated $571 million over the 2005-2009 period and $730 million over the 2005-2011 period, with no effect beyond the credit's December 31, 2010, expiration.

The bill also contains numerous provisions intended to reduce evasion of fuel taxes. JCT estimates that taxing aviation-grade kerosene at the terminal rack would increase governmental receipts by $395 million in 2005, about $2.1 billion over the 2005-2009 period, and about $4.2 billion over the 2005-2014 period. Other such provisions include, but are not limited to, exempting mobile machinery vehicles from certain excise taxes, implementing registration and reporting requirements for certain operators of pipelines and vessels, and modifying the use tax on heavy vehicles. In total, JCT estimates that the remaining evasion provisions would increase revenues by $108 million in 2004, about $2.1 billion between 2004 and 2009, and about $4.1 billion between 2004 and 2014.

Direct Spending

Providing Direct Payments in Lieu of Excise Credits. The bill would provide for payments to recipients of the tax credits who have insufficient tax liability to use them otherwise. As a result of this provision, CBO estimates that outlays would increase by $571 million over the 2005-2009 period and $730 million over the 2005-2011 period. Because these payments would replace the existing reduced tax rate on alcohol fuels, this amount exactly equals the increased revenues estimated for this provision.

Expiration of Special Tax Treatment for Ethanol. Expiration of the excise tax credit for alcohol fuels in the bill also would result in increased spending for farm income payments after 2010. Because the alcohol in such fuels is primarily derived from corn, demand for corn rises and falls with the demand for ethanol. The higher after-tax price of alcohol fuels resulting from expiration of the tax credit in 2010 would slightly reduce demand for ethanol and corn prices relative to those projected in the CBO baseline. As a result, CBO estimates that federal spending for farm price and income support payments would increase by $171 million over the 2011-2014 period.

INTERGOVERNMENTAL AND PRIVATE-SECTOR IMPACT

JCT has determined that H.R. 3971 contains three private-sector mandates as defined in UMRA: (1) taxing aviation-grade kerosene; (2) requiring registration of pipeline and vessel operators; and (3) modifying the heavy vehicle use tax. The cost of complying with those mandates would exceed the annual threshold for private-sector mandates established by UMRA ($120 million in 2004, adjusted annually for inflation) beginning in 2005. JCT has determined that the cost of complying with the three mandates would be no greater than the estimated revenue effects of the provisions. Those effects sum to $108 million in 2004 and $631 million in 2005, and grow slowly thereafter.

JCT has determined that H.R. 3971contains no intergovernmental mandates and would not affect the budgets of state, local, or tribal governments.

PREVIOUS CBO ESTIMATE

On October 14, 2003, CBO transmitted a cost estimate for S. 1548, a bill to amend the Internal Revenue Code of 1986 to provide incentives for the production of renewable fuels and to simplify the administration of the Highway Trust Fund fuel excise taxes, and for other purposes, as ordered reported by the Senate Committee on Finance on September 17, 2003.

Like H.R. 3971, that bill included excise tax credits that expire in 2010. Unlike H.R. 3971, S. 1548 included incentives for the production of biodiesel fuels. CBO estimated that enacting S. 1548 would increase governmental receipts by $28 million in 2004, by $277 million over the 2004-2008 period, and by about $4.3 billion over the 2004-2013 period. In addition, CBO estimated that the bill would increase direct spending by $16 million in 2004, by $108 million over the 2004-2008 period, and by $339 million over the 2004-2013 period. Some of the differences between CBO's estimates of S. 1548 and H.R. 3971 are due to changes in JCT's estimates of the effects of replacing the reduced tax rate on alcohol fuels with an excise tax credit. The remaining differences are due to the provisions not included in both bills.

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